



**BFI CANADA INCOME FUND**

**First Quarter 2006**

**CONFERENCE CALL**

**May 12, 2006**

## PRESENTATION

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### **Operator**

Good morning, ladies and gentlemen and thank you for standing by. Welcome to the BFI Canada Inc. first-quarter and business update conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. (OPERATOR INSTRUCTIONS).

I would also like to remind everyone that this conference call is being recorded today, Friday, May 12, 2006 at 8:30 AM Eastern time. I will now turn the conference over to Ms. Anne MacMicken, Manager Investor and Employee Relations. Please go ahead, ma'am.

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### **Anne MacMicken - BFI Canada Inc. - Manager Investor & Employee Relations**

Thank you, Theodora. Good morning, everyone. Thank you for joining us today. On the call today is Keith Carrigan, Vice Chairman and Chief Executive Officer of BFI Canada who will discuss the fund's operational highlights for the first quarter 2006; Tom Cowee, Chief Financial Officer, will then review the first-quarter financial performance for the fund.

Also on the call is Mickey Flood, President BFI Canada and President and CEO of IESI and Joe Quarin, Executive Vice President and Canadian COO of BFI Canada, who will also be available to answer questions during the Q&A period.

Before we get started, let me remind you that our remarks and answers to your questions today may contain forward-looking information about future events or the fund's future performance. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, the fund cannot assure unitholders that actual results will be consistent with these forward-looking statements.

The fund disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. We also do not commit in any way to guarantee that we will continue reporting on items or issues that arise either during our presentation or in the discussion that we hope will follow.

This information by its nature is subject to risks and uncertainties that may cause actual events or results to differ materially. Please refer to the bottom of today's news release for further information and to our annual information form for a more complete outline of the risks affecting our industry.

By now, we hope you have had a chance to receive and review a copy of the news release. If not, please log on to our website at [BFICanada.com](http://BFICanada.com) for a copy. A telephone replay of this conference will be available until midnight on May 19 at 1-877-289-8525 quoting reservation number 21187018 followed by the pound symbol. These details are available in the news release.

I'd now like to turn the call over to Keith Carrigan, Vice Chairman and CEO of BFI Canada. Keith.

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### **Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Thank you and good morning to everyone. We're glad to have you join us. I would like to begin by first discussing our first-quarter results. BFI Canada opened 2006 with a strong performance. First-quarter revenue grew 32.4% and EBITDA was ahead 26.1% compared to the first quarter of last year.

These strong results are due to two principal factors. First, a full quarter contribution of IESI as opposed to a short quarter. As you know, IESI joined us in late January of last year and second, the Company experienced very strong organic growth in the quarter.

Excluding fuel surcharges, our Canadian operations produced quarterly organic revenue growth of 15.9% over the same period last year, while our U.S. operations, excluding fuel surcharges and acquisitions, delivered quarterly organic growth of 15.4%.

These are very satisfying accomplishments because they were achieved through our successful implementation of our market-focused strategies across all our operations within North America. It is important to note that we also experienced an unusually mild winter in the first quarter, which contributed to these results.

Revenue and EBITDA by the way were higher in all three of our reporting segments. As a result, this led to an increase in free cash flow available for distribution, which was higher by 26.5% at \$30.6 million or \$0.47 per trust unit. And at \$27.8 million, aggregate distributions declared were 19.9% higher than one year ago.

In terms of stability, our payout ratio or the difference between free cash flow available and aggregate distributions declared was 90.8%. Because of quarterly timing differences and maintenance capital spend and seasonality in EBITDA, our first-quarter payout ratio, as you all know, may not be indicative of full-year results. But I believe that 90.8% payout ratio demonstrates that we are off to a very, very good start in 2006.

In terms of maintenance capital expenditures, we continue to believe that we remain on track. In 2006, we expect maintenance CapEx of between \$19 million and \$21 million for our Canadian platforms and U.S. \$27 million to \$29 million for our U.S. platforms.

With that expectation in mind, total maintenance capital spend in the first quarter was \$9.7 million representing about 17% and 19.2% of our total Canadian and U.S. platform budgets for the year respectively. Maintenance CapEx increased year-over-year in the first quarter by \$1.4 million due primarily to the full quarter impact of IESI and from expenditures incurred for landfill cell development, vehicles and other equipment.

Looking at growth capital, our total spend in the first quarter was \$15.2 million or \$6.6 million higher than the first quarter a year ago. As you know, growth capital is meant to support growth in future periods. Therefore, revenue and EBITDA contributions derived from vehicles, equipment and container growth CapEx will fully materialize over the period of the underlying customer contracts and expected well beyond.

We look to generate a payback from growth expenditures within three to five years of inception. Including in our first-quarter results was a strategic tuck-in acquisition made to complement our IESI platform in the South. Aggregate cash consideration was \$2.6 million. This acquisition of a collection operation fits once again with our own ongoing strategy of acquiring businesses that add volume and value to our collection and landfill assets. This brings to eight the number of tuck-ins we have made within our IESI platform since we acquired IESI.

Looking to 2006, we are very much focused on growing free cash flow available for distribution and maintaining a payout ratio for the year that is once again well below 90%. We believe we are well-positioned to meet this objective.

Well, you may wonder how rising interest rates will affect our operations and our outlook. I believe that we have the ability to mitigate this issue and its impact on our operating cost due to the nature of our customer contracts. These contracts provide us with the ability to increase prices as justified by inflation, which is an important feature in a rising rate environment.

The same is true for our ability to add fuel surcharges, which have been important in the past year and will likely continue to be important going forward due to the oil-driven inflation. Our platform assets are in great shape and ready for more continuous improvement this year.

Well, one quarter does not make a great year, but I believe that our strong start this year is a positive indicator for the balance of 2006. In looking forward, I remind you, as I always do at this time, that there will be fluctuations in our quarterly performance due to seasonal impacts on our business and the timing and maintenance CapEx. We see no reason for 2006 to be different than any other year in this regard and therefore expect that the bulk of maintenance capital spending will occur over the first three quarters of the year.

This means we expect to likely repeat the experience of having more free cash flow available for distribution in the second half of the year than the first. But to be clear, once again, our target payout ratio remains at sub 90%, which I believe is prudent.

Just before I turn the call to Tom, I should mention that we were pleased to see a good turnout at our annual meeting of unitholders yesterday. During the meeting, unitholders reelected all of the trustees, reappointed Deloitte & Touche as the funds' auditors and approved our unit option plan. Speaking as a trustee, we look forward to serving the best interests of our unitholders once again within the balance of this year and going forward.

In summary, we had a great quarter overall with strong, organic growth. This is something we look to build on in future quarters and in addition, we will continue our ongoing acquisition strategy and expect to see positive results from these acquisitions in the future.

Now I would like to turn the call over to Tom who will provide you with more financial details. Tom.

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**Tom Cowee - BFI Canada Inc. - CFO**

Thank you, Keith and good morning, everyone. Keith discussed some of the top-line highlights of the quarter, so let me begin with the expenses. But before I start, I would like to remind you of two key points. As you know, and as Keith has already explained, we acquired IESI on January 20 of last year, so we only received a contribution from this platform for the final 70 days of the first quarter of 2005. This year, we experienced the full quarter.

Second, and also as you know, there has been an increase in the value of the Canadian dollar relative to the U.S. dollar since last year's first quarter. Despite this, we have hedged almost all of the impacts.

Now, onto the first-quarter highlights. Operating expenses grew approximately 35% or almost \$27 million in the first quarter. The full quarter effects of IESI, the impact of the change in the FX rates, coupled with higher labor, fuel, maintenance and disposal expenditures to serve new, acquired and existing customers and higher landfill (indiscernible) were the primary reasons for the increase.

Selling, general and administrative expenses also increased approximately 35% or \$6.4 million. The full quarter results of IESI offset partially by the change in FX rates along with the higher professional fees and higher long-term incentive plan expenses are the primary reasons.

Amortization expense increased 17.5% or \$5.3 million in the first quarter of 2006. Amortization in our Canadian platform decreased due to declines in intangible and capital asset amortization partially offset by the increase in landfill asset amortization.

In our U.S. platform, amortization increased due primarily to the full quarter impact of IESI and the additional amortization of acquired growth capital assets and higher landfill asset amortization from the acceptance of higher volumes of waste.

Drawings throughout 2005 and early 2006 on our Canadian and U.S. revolving credit facilities to finance growth expenditures and acquisitions are partially responsible for the increase in the interest on long-term debt. The other was the increase in the variable interest rate expense.

Please note that on February 10 of this year in Canada, we entered into an amended and restated agreement. This increased our total available credit subject to lender approval to \$120 million from \$80 million.

In March, our U.S. platform amended its recurring revolving credit facility reducing the pricing grid on the revolver and reducing the interest paid on the term loan. In addition, the accordion feature on the credit facility increased to U.S. \$550 million. Borrowing rates under both of these agreements are more favorable than the predecessor agreements.

Now I have two final topics to discuss. The first is our management of foreign exchange. I've mentioned numerous times throughout the overview of our first-quarter 2006 results the effects of foreign exchange on our income statement. I would like to point out that these are substantially non-cash effects. We have a natural hedge in place because of our U.S. platform capital expenditures, operating expenses and SG&A costs and interest expenses are all paid for in U.S. dollars.

You might also recall that, at the time of making the IESI acquisition in January 2005, we entered into three three-year single rate hedges, which provides protection for distributions through February 2008 on approximately 90% of all distributions paid. We intend to periodically roll forward these hedges as they mature and currently they allow for monthly purchases of C\$4.5 million at an exchange rate of \$1.22.

The final topic is our financial condition. At March 31, 2006, we were in compliance with all of our long-term debt facility covenants. We remain confident that our long-term debt facilities and available capacities are sufficient to meet our planned growth and development activities near term. Longer term, it is our intention to issue trust units, but only as available debt capacities diminish as a result of growth and development or significant strategic acquisitions.

Relative to our industry, we continue to be considerably leveraged with a ratio of approximately 2.2 times total funded debt to EBITDA.

Finally, to conclude, our outlook for 2006 is positive. We have significantly strengthened and approved our operations over the past year and added important growth platforms and benefited greatly from the new combination of assets and people. We look forward to the challenge of growing and improving on your behalf. Thanks for listening and now I ask the operator to open the lines for questions.

## QUESTION AND ANSWER

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### Operator

(OPERATOR INSTRUCTIONS). Barbara Gray, Blackmont Capital.

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### Barbara Gray - Blackmont Capital - Analyst

I have a couple of questions. First, in terms of the U.S. debt, are you planning to fix it at anytime, the rates, because we are seeing rates moving up?

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### Tom Cowee - BFI Canada Inc. - CFO

Yes, the rates have continued to move up and we do monitor that very closely, Barbara. The forward yield curve is very flat at this point when we look at that from an interest rate standpoint. So as we continue to monitor it and we continue to verify to see what the long-term outlook is, we -- at this point, it is about as high as it looks to be, maybe 20 to 50 basis points higher and if the long-term outlook continues to trend that down a little bit, we don't see a compelling reason at this point to go ahead and fix those. But having said that, we watch it very closely and if something changes off of that, we will immediately make an adjustment.

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### Barbara Gray - Blackmont Capital - Analyst

The second question is with respect to Michigan, is there any update there in terms of talking about [batting] the imported Canadian trash? I know it is still being weighted for the Senate to sign it in.

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### Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO

It is. You are absolutely right. You have the update. The Senate -- they have passed some legislation in the state that gives them the authority once the Senate makes an approval of their tag-on legislation, Barbara. So I guess we could say they are poised to do something. But at this stage, we have not heard that anything is moving along at a quick pace out of the House in the state. So for the time being, we continue to be well-positioned. I think inevitably there is going to have to be some resolution with the state and whether it be in the form of some taxation or some other means, but the state -- at the present time, we are positioned with all of our waste going internally into Ontario.

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### Barbara Gray - Blackmont Capital - Analyst

Right. And if they did close down the border, who would determine if you could increase the capacity at the Ridge landfill? Would that be the government or would that --?

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### Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO

That would be government. That would be -- the Ministry of the Environment in Ontario regulates permit and permit capacity. Having said that, there is always consultation, as you can well imagine and we would also engage in consultation with our host community because we work hand in hand with them on an ongoing basis.

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### Barbara Gray - Blackmont Capital - Analyst

And have you had any discussions in terms of contingency planning?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

With the local community or with the Ministry --?

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**Barbara Gray - Blackmont Capital - Analyst**

With the government.

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

We like to stay away from those things quite frankly. We don't think that that really does us any good, looking at forward-looking options. They are going to do what they need to do and they know where the assets are within the province and I believe that we're probably the largest landfill or close to the largest landfill within the province right now. So I'm sure they probably have something in mind as it relates to our segment.

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**Barbara Gray - Blackmont Capital - Analyst**

And the last question is with respect to the New York City contract that is set to expire in October. Any update there?

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**Mickey Flood - BFI Canada Inc. - President & President & CEO, IESI**

Hi, Barbara. Good morning. It's Mickey. Our forecast right now is that the city's short-term plan, which has now been renewed on three separate occasions or has been updated on three separate occasions, continues to be the intermediate to long-term plan. So we look forward to the city renewing the contract and the city at the present time, as you know, generates upwards of 25,000 tons a day. Their recourse is only through transportation out of the city and only to private sites in which we enjoy a significant share of that business.

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

I think it is also relevant to note, Barbara, that there has been no moves afoot to do anything other than what is being done right now. So consequently it appears that things will carry on. Having said that once again, our landfills are certainly not dependent on New York City. There is a shortfall of air space within all of the Northeast. So we strategically accept waste from New York City because we think that is in our best interest for the time being, but that tap is going to be shut off and another tap turned on if we ever need to do that.

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**Barbara Gray - Blackmont Capital - Analyst**

Right. Will we see a public announcement if the contracts are renewed or if they're not renewed and when would that be?

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**Mickey Flood - BFI Canada Inc. - President & President & CEO, IESI**

They just awarded us, Barbara, another contract, a new contract, which basically reinforces the thinking process that those short-term processes continue. They awarded us a contract for Queens within the last 90 days.

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**Barbara Gray - Blackmont Capital - Analyst**

What is the size?

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**Mickey Flood - BFI Canada Inc. - President & President & CEO, IESI**

It is about 300 to 400 tons.

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**Operator**

James Leung, Mackenzie Financial.

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**James Leung - Mackenzie Financial - Analyst**

Good morning, gentlemen. Good quarter. Just a question on the segmented organic growth disclosure that you have, specifically on the U.S. organic growth of 15.4%. I was wondering if Mickey can disclose what -- is there any difference between the Northeast and the South in that number?

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**Mickey Flood - BFI Canada Inc. - President & President & CEO, IESI**

Well, we don't report between each segment, but let me just say there is probably one -- there is one issue, which we did disclose, and that was due to the good weather we had enjoyed in the Northeast during the winter, we moved through some additional tonnage that typically is a shortfall because we usually have a few days where tonnage doesn't move in the Northeast because of snowstorms as an example. So we are a little ahead of the curve with respect to waste that we took to our Seneca landfill. So this had an impact roughly of about 1 percentage point.

So you could say that that really -- we will lose that in another quarter if you would like because we do have a capacity on the landfills. So having said that, overall, you could look at the U.S. and say, well, the U.S. is roughly running a little better than 14% organic growth on a normalized basis. We did enjoy some very significant organic growth in the South, more so than the Northeast. Does that answer your question?

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**James Leung - Mackenzie Financial - Analyst**

Yes, that's very, very helpful. Similarly in Canada, I know that you probably will not disclose the difference in regions, but would it be fair to say that the West probably enjoyed a stronger growth rate than the East or is that too broad a statement to make?

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**Mickey Flood - BFI Canada Inc. - President & President & CEO, IESI**

That is too broad a statement to make. We like to think -- certainly the economy is not growing at 15%. So clearly you can imagine that there are other factors weighing in that are moving our organic growth. The U.S. waste management companies are, although they have had a little bit of a tickup in terms of organic growth on a year-over-year basis, are nowhere near what we are experiencing both in the U.S. and Canada.

So we have to believe that it is part of our management process that we use in the field, which is a little different process than everybody else in our industry and we believe that we manage to get results as a result of this program.

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**James Leung - Mackenzie Financial - Analyst**

My next question is about the -- there is this little note here that is very early in your MD&A, which discusses one landfill, which is accepting waste volumes, which would exceed the annual permitted volumes. You have not disclosed which one it was and what is the significance of disclosing the additional EBITDA?

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**Mickey Flood - BFI Canada Inc. - President & President & CEO, IESI**

Well, that was the Seneca landfill that I was just referring to because we had good weather in the winter. So as a result, we had no loss, if you would like snow days, running waste up into the site from the Eastern Seaboard. So as a result, we will -- that was represented by 1% of the organic growth. We will lose that percent in another quarter because we do have a cap on the total volume that we can take into the site. So that represented a little better than about \$700,000 of (indiscernible).

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**James Leung - Mackenzie Financial - Analyst**

Where would the trash go if the volumes were capped out?

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**Mickey Flood - BFI Canada Inc. - President & President & CEO, IESI**

It will be third-party volume that we will just redirect and this is a normal -- if you -- at our sites and at sites typically that have volume capacities attached to them. As the last few months of the year move along, we are always looking at how we are going to reach our cap and we always do reach the cap and then we go to third-party customers and give them an advanced notice that they would have to look for X number of tons of other capacity at other sites through the balance of the year.

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**James Leung - Mackenzie Financial - Analyst**

Thanks. Just a final question. Can you give us some color on the acquisition market, the availability of additional properties for purchase and the multiples that these transactions are going through and then finally also some color on the potential M&A activities with regards to waste management in Canada and what the situation there is?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Okay. That's a number of questions. Let me see if I can address them one at a time. In terms of where we are with respect to acquisitions, we are actively pursuing acquisitions as we always have both in Canada and the U.S. As you can see, we have made a number of tuck-ins just in the past year at IESI. We will continue to look for those types of operations, which will build on our existing platforms, which create additional density inside those platforms.

We'll also look when we can combine the right assets in a new market, we will look to acquire into those new markets. We do have a group within our Company, a management group within our Company, that actively pursue these as their only mandate within the Company.

Having said that, I would say that, as I mentioned at the last call that we had a quarter ago, that we are seeing some increase in terms of valuation of potential acquisition candidates. You go back a year or better than a year or so ago, we might have said that they were in the typically 5 to 7 times multiple range and I think they are probably moving up in typically the 6 to 7.5 multiple range right now, which bodes still very well for us because, of course, any asset that we acquire at those ranges is still highly accretive. So we are obviously a key player in our ability to acquire the combinations of assets that we're looking for.

Having said that, as you can well see through our history that after we acquire assets, we tend to create significant additional value on those assets in terms of the ability to grow them further and create additional value against the assets that we have acquired. So we will continue to pursue that and we believe that the market is a market that works very well for BFI Canada. Does that answer all those?

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**James Leung - Mackenzie Financial - Analyst**

Yes. Just the situation in Canada with regards to one of your competitors potentially shedding noncore operations here.

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

I think it's in the U.S. Are you referring to Waste Management?

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**James Leung - Mackenzie Financial - Analyst**

Yes, sorry, yes.

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Well, Waste Management -- let me just say that, first of all, the assets of Waste Management are shedding are just a group of assets that have not been performing assets for them. So typically there is not going to be a rush to the door for people to buy negative cash flow assets unless those assets within another corporation create enough synergies that create positive cash flow.

So now Waste Management is a very large company, so you can imagine if they are not generating a return on their density, they are probably not going to contribute a lot of return to the density of other companies.

Having said that, those assets that Waste Management are offering are still a very, very small percentage of the total population of available corporations that are out there for acquisition. So as a result, whether it be Waste Management's assets or other assets, we are on very specific targets, what fits in with our combinations that we look for and we are very focused that whoever they come from we will go and acquire them.

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**Operator**

Sophia Taylor, TD Newcrest.

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**Sophia Taylor - TD Newcrest - Analyst**

A lot of my questions have been answered, particularly on the revenue side, but I thought I'd shoot down maybe just a couple lines down to the EBITDA margin. You were just a little slightly lower I guess than we were looking for and I think I am noticing some of the weakness coming out of the Northeast, U.S. Northeast. I am just wondering if you could comment on why we are seeing this and perhaps what an outlook would be going forward?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Sure. Well, when a company grows at 15.4% or in the 15% range, Sophia, typically they are growing in collection opposed to landfill and, as you folks that have been following the industry know, collection will have a lower percentage of EBITDA and, as you also know, the first quarter typically is a lower percentage of our total revenue base over the course of the year.

So in other words, if there is last waste generated that goes to landfills in the first quarter, landfills have higher EBITDA margin. So when you see 15% growth then you know that most of the growth is occurring in collection areas and in collection areas, you'll typically have a lower percentage.

Having said that, let's not get focused on percentages again because collection assets, once again, have a lower capital cost. So as a result, we are looking to generate capital against our excess cash and cash against each asset. So if we have an asset -- I'll give you the example again -- if we have a route that generates \$500,000 -- or I'm sorry -- maintenance CapEx is \$500,000 then clearly we need to generate a margin that is much higher to get a good return on those assets.

Where we have a route that is \$150,000 of total capital, clearly the cash that is generated through EBITDA to support the same return that we would've had on front-end needs to be much lower. So obviously each one will affect the EBITDA margin.

So we're very happy because one of the areas that we look at everyday is pushing our return on capital against each asset. And we know that that return is getting better every single day that we operate. And in fact, this first quarter was a very good quarter for that. So EBITDA margin -- I guess what I'm saying --when you try to look at it on a quarter-over-quarter basis or with gross, really isn't probably a total relevant measurement.

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**Sophia Taylor - TD Newcrest - Analyst**

Thank you. The second question has to do with leverage ratio. Just wondering if you could please remind us of your target as well as the covenants please?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Let me start and then I'm going to turn it over to Tom. We always target to be around the 2% -- or I'm sorry -- the two times leverage. Having said that, when you have significant growth then obviously you will see that our growth capital will move up. You'll also notice that I mentioned in the talk today that we return full payback against all assets in typically about a three to five-year range. So that is incredibly accretive, much more accretive than acquisitions that we were speaking about earlier because of course there is no goodwill attached to organic growth.

So as a result, we are very, very pleased when we can put on that additional capital. Having said that of course, you don't see the return immediately when the capital has been put out. So we are very, very pleased that we're maintaining that leverage ratio in the 2 times range at 2.2 and yet we have -- we have incurred and had very significant growth. A portion we have absorbed into productivity, but there has also been a portion where we have also had to acquire equipment.

In addition to that, for you folks that have visited some of our landfills, you might know that both at Lachenaie and at Seneca, a couple of our biggest landfills, we have been in the process of developing new cells on those landfills, which we of course recover waste into those sites over not just one year, but over several years.

So as a result, when you tag that onto the organic growth we have, we're very pleased that we're maintaining that approximately two times leverage. Let me pass it over to Tom as he talks to covenants.

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**Tom Cowee - BFI Canada Inc. - CFO**

In terms of covenants, Sophia, we have got plenty of room on a specific basis specifically in both of our credit facilities. There are new issues there at all. The rest of our covenants with the new organization are well in line with where they need to be as well. So there is no covenant issues. It has been sliding up a little bit from the 2 times to the 2.2 times and we don't see any issue in the foreseeable future as well.

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**Sophia Taylor - TD Newcrest - Analyst**

Are you disclosing what those covenant levels are?

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**Tom Cowee - BFI Canada Inc. - CFO**

I think we have in the past.

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

I think we have, yes.

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**Tom Cowee - BFI Canada Inc. - CFO**

In the U.S., it's 3.25. In Canada, it's 2.5.

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**Operator**

Kelly Woodall, Raymond James.

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**Kelly Woodall - Raymond James - Analyst**

I guess Sophia really touched on my first question. I know you don't like to get too far into your EBITDA margin, but we did see a 400 basis point climb or sorry decline in the U.S. Northeast, while Canada and the U.S. was relatively unchanged. Could you comment on whether you are seeing any specific increases in your operating expenses there that are driving this disposal of fuel? Your earlier comments would seem to indicate that haven't seen any decline in your higher margin landfill business in this area.

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Let's just say that when fuel prices go higher than we are obviously taking the surcharge to our customers in revenue, which effectively decreases that market slightly, when that occurs, as you can well imagine because that is just pass through. We're not making a margin on the fuel. So that is going to decrease the margin.

In addition to that, our operating expenses really have been in line, absolutely in line with the growth. The SG&As -- our SG&As were slightly higher, Kelly, and that is probably for two reasons. First, that we spread our LTIP amortization across the full year. Last year, we took a big chunk in the last quarter, so you're not going to see that occur this year.

In addition to that, we had a little bit of higher legal expense this year due to a case that we have been dealing with in Montreal. That case has been completed at this stage, so you won't see that carryforward, but probably the one area that I would like to comment because sometimes there seems to be a little confusion and that is probably dealing with the FX issue going forward.

Tom had mentioned in his talk earlier that we are pretty well fully hedged with respect to U.S. Canadian dollar exchange and let me explain that a little further. First of all, our U.S. operations are spending capital. They are spending their operating cash, generating EBITDA in U.S. dollars. Our debt in the U.S. is paid back in U.S. dollars, so there is no FX implication with respect to our payback of debt.

Our Canadian operations that is in Canadian dollars and where we earn the dollars that is where we pay it back on our debt. With respect to distributions or funds that we bring up from the U.S. with regard to distributions, we are fully hedged on those distributions through February of 2008.

So with respect to excess cash, as you can see, we are growing in both Canada and in the U.S. and we will continue to use our excess cash for the U.S. in the U.S. and for Canada in Canada to support growth in both of those areas.

So therefore, although we have -- clearly we report in Canadian dollars in real spend and in return on capital and in cash flow. In fact, we are hedged. You should also note that when the U.S. dollar depreciates or declines in value, most of our capital, CapEx that we acquire equipment, is from U.S. assets. So we are therefore buying a lot of our maintenance CapEx at cheaper prices today than we were going back a year and two years ago.

So we don't -- we are very fortunate that we do not feel the impact of declining U.S. dollar at the present time. So I hope that also answers the question with respect to margins and to year-over-year analysis.

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**Kelly Woodall - Raymond James - Analyst**

Okay, thank you. And secondly, in regards to landfill cell development costs, there was a lot of discussion on the Republic Services call about a significant rise in costs. And Jim O'Connor noted that resin prices are up and [minor] costs were up 15% to 20%. Waste Management has downplayed this a bit and said it's more like 5% to 10%. What are you seeing and are you having any difficulty passing on those higher costs to customers?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

We are seeing marginal increases in terms of our landfill development costs. First of all, most of our landfills were in the U.S. We're blessed in that we do a lot of the development ourselves. So in terms of the labor costs, etc., they just follow the trending that we typically have with our labor cost.

With respect to engineering costs, we have seen that they are moving up typically with inflation, which was anticipated and accounted for. So therefore, as I reported earlier, we are very, very comfortable that our CapEx, our maintenance CapEx, is going to be right in line where we said it was going to be on a year-over-year basis.

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**Operator**

Barbara Gray, Blackmont Capital.

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**Barbara Gray - Blackmont Capital - Analyst**

In terms of the fuel surcharge, what was it for Canada and for the States?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

We were able to let Canada pass through once again, 100% of the --.

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**Barbara Gray - Blackmont Capital - Analyst**

Right, but if you look at the U.S. companies, that range is between 1% and 2.5% if you look in terms of --.

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

It is in the same range, Barbara.

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**Barbara Gray - Blackmont Capital - Analyst**

In the high end or the low end?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Did you say 1% to --?

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**Barbara Gray - Blackmont Capital - Analyst**

1% to 2.5%

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

It is a little better than 1%.

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**Operator**

(OPERATOR INSTRUCTIONS). Aleem Israel, Sprott Securities.

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**Aleem Israel - Sprott Securities - Analyst**

Just one question. On the organic growth, could you just comment on the impact that higher commodities might be having on you such as aluminum for example in terms of when you may be reselling some of that?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Yes, actually commodities are not higher; they are lower on a year-over-year basis. So price has decreased in our commodity-based assets. Having said that, we have offset that by managing to increase our productivity in those areas. So the net is that we are actually slightly ahead in the areas, but not due to price. Price is actually lower on a year-over-year basis.

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**Aleem Israel - Sprott Securities - Analyst**

And can you talk about what portion of growth in Canada is driven by the new Ottawa collection contract?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

It hasn't. You're not seeing the effect yet. Although we have made the capital spend for assets for Winnipeg and Ottawa, you have not seen the positive influences for either one of those yet.

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**Aleem Israel - Sprott Securities - Analyst**

When do those kick in?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Winnipeg will kick in fully within this quarter, this coming quarter and you'll get a partial increase in Ottawa in the next quarter.

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**Operator**

Sophia Taylor, TD Newcrest.

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**Sophia Taylor - TD Newcrest - Analyst**

I just had a quick follow-up with respect to wording in the MD&A regarding you're actively reviewing current organization structure or your current organization structure. I was just wondering if you could perhaps elaborate on what that means. I'll leave it at that.

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**Joe Quarin - BFI Canada Inc. - EVP & Canadian COO**

Sophia, it is Joe here. We are always looking at how we can just be as sufficient as possible from a cash perspective. So it really -- we have got the Ridge landfill right now sitting in the [race] partnership, which is right below the fund. We have indicated that we're working on new Calgary site. The likelihood is we were put that into a partnership structure as well. So we're trying to get to an efficient structure from a tax perspective and that is really what that means.

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**Operator**

(OPERATOR INSTRUCTIONS). James Leung, Mackenzie Financial.

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**James Leung - Mackenzie Financial - Analyst**

Just a brief follow-up. Just can you -- this is a follow-up for Aleem when he asked the question about the Ottawa contract. Do you have the top-line annual number that you can care to disclose?

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

It's not material to the Corporation. So it typically doesn't work in our best interest to, from a competitive point of view, to be giving information out on individual type contracts. So we don't release that information.

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**Operator**

(OPERATOR INSTRUCTIONS). Mr. Carrigan, there are no further questions. Please continue.

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**Keith Carrigan - BFI Canada Inc. - Vice Chairman & CEO**

Well, I'd like to thank you all for joining us today. I think we have experienced a very exciting year through 2005 and we are very, very pleased with the results that we have seen on an ongoing basis for the first quarter and clearly the organic growth that we experienced in the U.S. in the last quarter of last year as well. So we look forward once again to meeting our objectives through 2006. I would like to thank the people who are on the call today who joined us at our annual meeting yesterday and for you folks that didn't, I would like to thank you for joining us on the call today and we look forward to speaking with you again approximately three months from now. So thank you very much and we will see you soon. Goodbye.

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**Operator**

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. You may now disconnect your line.

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